

**ILLINOIS COMMERCE COMMISSION**

**DOCKET NO. 00-0722**

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**DIRECT TESTIMONY**

**OF**

**RICHARD L. MCCARTNEY**

**Submitted on Behalf**

**Of**

**UNION ELECTRIC COMPANY**

**d/b/a AmerenUE**

**March 2001**

**ILLINOIS COMMERCE COMMISSION****DOCKET NO. 00-0722****DIRECT TESTIMONY OF RICHARD L. MCCARTNEY****UNION ELECTRIC COMPANY****d/b/a AmerenUE**

**Q. Please state your name and business address.**

A. My name is Richard L. McCartney. My business address is 1901 Chouteau Avenue, St. Louis, Missouri 63103.

**Q. By whom are you employed and in what capacity?**

A. I am employed as a Coal Trade Executive at Ameren Energy Fuels and Services Company. However, during the reconciliation period which is the subject of this proceeding, I was employed as a Gas Supply Executive in the Gas Supply Department of Ameren Energy Fuels and Services Company.

**Q. Please briefly describe Ameren Energy Fuels and Services Company.**

A. Ameren Energy Fuels and Services Company is an affiliate of Ameren Corporation which was formed following the December 1997 merger of Union Electric Company, now doing business as AmerenUE (AmerenUE or Company), and Central Illinois Public Service Company, Inc. Ameren Energy Fuels and Services Company is a company which provides AmerenUE and Central Illinois Public Service Company, now doing business as AmerenCIPS, and the other companies of the Ameren system with a variety of fuel related services, including gas procurement services.

**Q. Please describe your pertinent employment history.**

A. I was employed by Union Electric Company in June 1986 and by Ameren Corporation upon the December 1997 merger. Prior to being promoted to the position of Gas Supply

1 Executive, I held several positions including coal buyer in the Fossil Fuels Department,  
2 power marketer in the Energy Services Department, and resource planning engineer in  
3 the Corporate Planning Department. Prior to those positions, I held positions in Finance  
4 & Accounting and Transmission & Distribution.

5 **Q. Please describe your educational background.**

6 A. I received a Bachelor of Science degree in Industrial Engineering from the University of  
7 Missouri at Columbia in 1986. I received a Masters of Science degree in Management  
8 from Maryville University in St. Louis in 1988.

9 **Q. What were your duties and responsibilities as Gas Supply Executive?**

10 A. My responsibilities included the purchase of reliable and economic gas supply,  
11 transportation and storage services for AmerenUE's Illinois gas distribution system in  
12 Alton and vicinity. I also participated in proceedings before the Federal Energy  
13 Regulatory Commission (FERC) involving AmerenUE's interstate pipeline suppliers and  
14 before this commission and the Missouri Public Service Commission (MPSC) relating to  
15 AmerenUE's natural gas distribution systems. I also assisted in performing daily  
16 operations including load forecasting, system balancing, storage management,  
17 nominations, and scheduling.

18 **Q. Are you familiar with the subject matter of this proceeding?**

19 A. Yes, I am. This docket is the Commission's annual reconciliation proceeding related to  
20 AmerenUE's Illinois Uniform Purchased Gas Adjustment Clause (PGA). It was  
21 established for the purpose of reviewing the Company's gas procurement activities under  
22 its PGA for the twelve month period ending on December 31, 2000.

23 **Q. What is the purpose of your testimony in this proceeding?**

1 A. The purpose of my testimony is to provide a description of the gas procurement activities  
2 performed during the reconciliation period with respect to AmerenUE's gas utility  
3 distribution system located in the city of Alton, Illinois and vicinity.

4 **Q. Before describing such gas procurement activities, for background, please describe**  
5 **AmerenUE's gas system in Illinois.**

6 A. AmerenUE's gas system in Illinois serves Alton and adjacent areas and is separate and  
7 distinct from the Company's Missouri gas operations. This system serves approximately  
8 18,303 customers comprised of residential (62%), commercial (19%) and industrial  
9 (19%) customers. The Company's customer load requirements are highly weather  
10 sensitive with sharp variations in demand occurring during the peak winter season.  
11 During 2000, AmerenUE's Illinois distribution system was directly connected to one  
12 interstate pipeline, Mississippi River Transmission Corporation (MRT), which is  
13 regulated by the FERC, and to one intrastate pipeline, Illinois Gas Transmission  
14 Company (IGT), regulated by this Commission. There were no local gas fields in or near  
15 the Company's gas service area from which the Company could have reliably purchased  
16 direct gas supply. AmerenUE has no on-system natural gas storage, but does lease  
17 storage services from MRT under the terms and conditions of MRT's FERC regulated  
18 Firm Storage Service (FSS). This storage is located in Lincoln Parish, Louisiana.

19 **Q. Mr. McCartney, would you please describe the Company's general purchasing**  
20 **policy for acquiring natural gas supply and services to supply it Illinois gas system?**

1 A. AmerenUE's natural gas acquisition policy is essentially a product of its utility obligation  
2 to service. As a regulated public utility, the Company is obligated to provide natural gas  
3 service to all present and future customers in its service area; it is required to meet  
4 changes in its customers' demand for gas, without regard to their cause; and AmerenUE  
5 is charged with providing reliable service at reasonable cost. Each gas purchasing  
6 decision made on behalf of the Company is directed at satisfying this obligation to serve  
7 in the most economic way.

8 **Q. Please describe the gas transportation and storage services that were available for**  
9 **use by AmerenUE in 2000 to supply gas to its Illinois distribution system.**

10 A. The Company signed Firm Transportation Service and Firm Storage Service contracts  
11 with MRT on November 1, 1993 as a result of FERC Order 636. These original contracts  
12 have been extended through October 31, 2001. The Company also executed a Firm  
13 Transportation agreement with IGT on December 1, 1993 and amended it to increase  
14 capacity in 1998. Firm Transportation agreements with Natural Gas Pipeline Company  
15 of America (NGPL), an interstate pipeline upstream of IGT, were executed on December  
16 1, 1993 and November 19, 1998. Current NGPL and IGT firm transportation agreements  
17 extend through 2001 to coincide with the expiration of the MRT firm transportation  
18 contract. AmerenUE also executed interruptible transportation agreements with MRT on  
19 December 1, 1989 and with IGT on September 17, 1990.

20 Later in my direct testimony, I will provide a summary of these contracts  
21 including their maximum daily contract quantities (MDCQ).

22 **Q. Did the Company alter any of its gas transportation or storage agreements for use**  
23 **by AmerenUE in 2000?**

A. No, it did not. The current transportation services on MRT, NGPL and IGT remain unchanged from the prior year.

**Q. Please provide a table that summarizes the specific pipeline services that were available to AmerenUE for transportation and storage during 2000.**

A. A table summarizing such services is set forth below:

Contract	Service	Description	MDQ (MMBtu)
462	FTS	MRT Firm Transport	20,887/18,636 (1)
503	FSS	MRT Firm Storage	12,774 (2)
I100010	FT	IGT Firm Transport	8,000
106214	FTS	NGPL Firm Transport	5,000 (3)
114450	FTS	NGPL Firm Transport	3,530 (4) w/alt del Fisk/Lutesville
17	IT	MRT Interruptible Transport	15,000
I100010	IT	IGT Interruptible Transport	12,000

(1) Peak/Off-Peak season

(2) Storage injections/withdrawals transported to/from facilities on FT #462

(3) Upstream capacity delivery to IGT.

(4) Total contract is for 3,530 which includes 530 of capacity delivered to AmerenUE Fisk-Lutesville system in Missouri. Fixed reservation charges are allocated by primary delivery point capacity.

**Q. Please describe AmerenUE's gas supply portfolio.**

A. The Company's gas supply portfolio for Illinois was divided into different sources based upon firm pipeline capacity on MRT and NGPL. This allowed for diversity while retaining economies of scale.

For the peak season of January, February, and March 2000, firm gas supply agreements were acquired through competitive bidding and commenced flow in November or December 1999. The firm gas supply consisted of a base load of 2,426 MMBtu per day to be transported over MRT's West Line in Louisiana; a swing supply contract of up to 7,500 MMBtu per day to be transported over MRT's Mainline; and three swing supply agreements of 0-3,118 MMBtu, 0-2,584 MMBtu and 0-2,618 MMBtu, respectively, to be transported to IGT via upstream firm transportation on NGPL. An

1 additional supply source on MRT's East Line added a 0-6,073 MMBtu swing package.

2 The East Line supply source expired at the end of February 2000.

3 For the peak season of November and December 2000, new firm gas supply  
4 agreements were acquired through competitive bidding. The new firm gas supply  
5 agreements (which replaced those described above) consisted of a base load of 2,420  
6 MMBtu per day to be transported over MRT's West Line in Louisiana and a swing supply  
7 contract of up to 4,500 MMBtu per day in November and 6,000 MMBtu per day in  
8 December to be transported over MRT's Main Line. Also acquired were three gas supply  
9 agreements of 0-3,118 MMBtu, 0-2,584 MMBtu, and 0-2,618 MMBtu, respectively, to  
10 be transported to IGT via upstream firm transportation on NGPL. An additional supply  
11 source on MRT's East Line added a 0-6,065 MMBtu swing package for the month of  
12 December 2000.

13 The final portion of firm gas supply for both peak seasons was available from the  
14 Company's FSS storage service agreement with MRT. This storage agreement provided  
15 for the firm withdrawal of AmerenUE's storage inventory into the firm transportation  
16 agreement with MRT for delivery to the Company's citygate.

17 **Q. Describe the relationship between these firm gas supply sources and the**  
18 **corresponding pipeline transportation capacity?**

19 A. The maximum daily firm pipeline capacity and gas supply volumes that were available  
20 during January, February, and March 2000 are described in the table below. "MDCQ"  
21 means "Maximum Daily Contract Quantity". Firm Gas Supply quantities do not reflect  
22 exclusions for fuel and loss.

1

Transport Agreement Jan, Feb, Mar	Pipeline Capacity MDCQ (MMBtu)	Gas Supply Agreement Jan, Feb, Mar	Firm Gas Supply MDCQ (MMBtu)	Supplier	Price Structure
MRT FTS	20,887				
		MRT West Line Baseload	2,426	PG&E	Gas Daily First of Month Index MRT WL + \$.0149 & \$4 cap. Demand Fee of \$.0612.
		MRT Main Line Swing	7,500	MRT Energy	Gas Daily Daily Index MRT ML. No Demand Fee.
		MRT East Line Swing	6,073 (1)	MRT Energy	Lesser of Gas Daily First of Month Index Chicago LDCs, Large End-Users and "Gas Daily" Daily Index Chicago LDCs, Large End Users + \$.10. Demand Fee of \$.26 (includes upstream transport on NGPL).
		MRT FSS Storage (Transported by FTS)	12,774 (Maximum)		Weighted Average Cost of Gas of \$2.55
IGT FT	8,000				
		IGT Swing NGPL MidContinent Zone	2,618	Marathon	Inside FERC First of Month Index NGPL MidContinent. Demand Fee of \$.11
		IGT Swing NGPL Louisiana Zone	2,584	OG&E	Inside FERC First of Month Index NGPL Louisiana. Demand Fee of \$.13
		IGT Swing NGPL TexOk Zone	3,118	OXY	Gas Daily Daily Index NGPL TexOk. Demand Fee of \$.005
<b>Firm Deliverability</b>	<b>28,887</b>		<b>37,093 (2)</b>		
Propane	6,000		6,000		
<b>Total Firm Deliverability</b>	<b>34,887</b>		<b>43,093 (2)</b>		

2

(1) East Line Swing was 0 for March

3

(2) Actual gas supply available is lower because the FSS Storage ratchets down



- 1 The maximum daily firm pipeline capacity and gas supply volumes that were available during  
 2 November and December 2000 are described in the table below:

Transport Agreement Nov, Dec	Pipeline Capacity MDCQ (MMBtu)	Gas Supply Agreement Nov, Dec	Firm Gas Supply MDCQ (MMBtu)	Supplier	Price Structure
MRT FTS	20,887				
		MRT West Line Baseload	2,420	Cinergy	27% at \$4.68 and 73% at <u>Gas Daily First of Month</u> Index MRT WL + \$.015. No Demand Fee.
		MRT Main Line Swing	6,000 (1)	MRT Energy	<u>Gas Daily Daily Index MRT</u> ML. No Demand Fee.
		MRT East Line Swing	6,065 (2)	MRT Energy	<u>Gas Daily Daily Index</u> Chicago LDCs, Large End Users + \$.03 & \$10 cap. Demand Fee of \$.21
		MRT FSS Storage (Transported by FTS)	12,774 (Maximum)		Weighted Average Cost of Gas of \$4.34
IGT FT	8,000				
		IGT Swing NGPL MidContinent Zone	2,618	Western	<u>Gas Daily Daily Index</u> NGPL MidContinent with \$7 cap. No Demand Fee (free because of Panhandle swap).
		IGT Swing NGPL Louisiana Zone	2,584	Noble	<u>Inside FERC First of Month</u> Index - NGPL Louisiana. Demand Fee of \$.43
		IGT Swing NGPL TexOk Zone	3,118	OXY	<u>Gas Daily Daily Index</u> NGPL TexOk. Demand Fee of \$.005.
<b>Firm Deliverability</b>	<b>28,887</b>		<b>35,579 (3)</b>		
Propane	6,000		6,000		
<b>Total Firm Deliverability</b>	<b>34,887</b>		<b>41,579 (3)</b>		

(1) 4,500 MMBtu for November and 6,000 MMBtu for December

(2) 0 MMBtu for November and 6,065 MMBtu for December

(3) Actual gas supply available is lower because the FSS Storage ratchets down

1 **Q. Were these gas supplies generally available throughout the year, and on peak days**  
2 **experienced by the Company?**

3 A. Yes, the gas supplies were available during the periods indicated above with no  
4 exceptions.

5 **Q. Your tables above include propane as a source of firm gas deliverability. Please**  
6 **discuss.**

7 A. As an additional supply source on peak days in 2000, AmerenUE maintained a propane-  
8 air blending plant with an operational capacity of approximately 6,000 MMBtu per day.  
9 This plant did not operate other than for operating tests during the reconciliation period.

10 **Q. Were other supply sources available to AmerenUE during 2000?**

11 Yes. In addition to the supplies mentioned above, the Company purchased gas from the  
12 short-term spot market during the off peak period (April through October). This gas was  
13 used for injection into storage and for the summer requirements of the Company's Illinois  
14 distribution system.

15 **Q. How was the spot market monitored for the purchase of gas?**

16 Ameren Energy Fuels and Services gas supply personnel maintain communications with  
17 gas producers and marketers when performing their normal job activities. A large  
18 volume of information regarding the spot market is derived from these communications.  
19 In addition, Ameren Energy Fuels and Services subscribes to a number of gas industry  
20 publications such as Gas Daily, Inside FERC Gas Market Report, and Natural Gas Week  
21 which provide spot market pricing information and industry news on a regular basis. The  
22 New York Mercantile Exchange gas futures market is also monitored on a real time basis  
23 by a satellite feed signal from a futures information service provider.

1 Spot market gas was procured by competitive bid from various suppliers on a monthly or  
2 daily basis. AmerenUE maintains a spot market supplier list containing gas suppliers  
3 qualified to bid on the spot market requirements of the Company. AmerenUE uses the  
4 spot market as a “testing” ground for new suppliers since non-performance by a gas  
5 supplier during the summer will not cause operational or economic harm to the Company.

6 **Q. Mr. McCartney, how did the Company plan the utilization of its supply sources?**

7 A. The supply sources were utilized by AmerenUE to meet the operational characteristics of  
8 its citygate loads and to comply with contract and/or tariff restrictions incorporated  
9 within the various pipeline and supplier agreements. Baseload gas, typically being the  
10 lowest cost and contractually more restrictive, has the highest priority as to use and  
11 flowed continuously during the periods when agreements were in effect. Swing gas  
12 supply agreements were utilized to meet citygate load swings outside the range of the  
13 FSS storage withdrawals and to control the FSS storage inventory to maintain adequate  
14 storage deliverability through the month of February. FSS storage withdrawals provided  
15 the “No-Notice” service required to manage significant and unpredictable load swings.  
16 The propane plant was available to be utilized to meet peak day demand that exceeded  
17 firm pipeline deliverability. Finally, spot market purchases were utilized during the off-  
18 peak season.

19 **Q. What procedure was used to purchase firm gas supply to serve AmerenUE’s**  
20 **distribution system?**

21 A. Written requests for bids for firm gas supply were mailed on behalf of the Company to  
22 suppliers who were known to be reliable and capable of furnishing firm service. The

1 winning bids were selected based on a ranking of price with further consideration given  
2 to reliability and diversity of supply.

3 **Q. Did the Company use any hedging or price control methods during 2000?**

4 Yes, the FSS storage provides approximately 45% of all gas required in a typical winter.

5 During January and February of 2000, the weighted average cost of gas in storage was  
6 \$2.55 per MMBtu. During November and December of 2000, the weighted average cost  
7 of gas in storage was \$4.34 per MMBtu. These costs were significantly below the gas  
8 prices prevailing in the spot market during those periods. An additional amount of gas  
9 supply was hedged using a combination of fixed price purchases, first of the month calls,  
10 and caps. For example, during the period of January through March 2000, the West Line  
11 Baseload supply contained a \$4.00 per MMBtu cap that eliminated AmerenUE's  
12 exposure to monthly pricing in excess of \$4.00 per MMBtu. The East Line Swing supply  
13 was priced at the lesser of Gas Daily First of Month Index for Chicago LDCs, Large End-  
14 Users or Gas Daily Daily Index for Chicago LDCs, Large End-Users + \$.10 per MMBtu.  
15 This eliminated volatility for intra-month price increases while allowing AmerenUE to  
16 capture intra-month price decreases. For the extremely volatile period of November and  
17 December of 2000, approximately 65% of all gas used by our customers was hedged  
18 using a such pricing mechanisms. The pricing structures are identified in the table  
19 provided on Page 8 of this testimony.

20 **Q. Describe the method used to purchase propane for the Company's peak-shaving**  
21 **propane-air blending plant.**

22 A. Purchasing of bulk propane supplies is only necessary after the plant is utilized during the  
23 prior winter period or when testing reduces the inventory level. Because the propane

1 facility was tested in the year 2000, propane was purchased in the Fall of 2000. Bid  
2 requests were transmitted by letter or telephone to suppliers of propane. Once bids were  
3 received, a supplier was selected based on price, deliverability and quantity available.

4 **Q. What steps does the Company take on peak days when the daily demand level**  
5 **exceeds the supply available through its pipeline sources?**

6 A. If daily demand exceeds available gas supply, assuming there is still available pipeline  
7 capacity, the first step of utilizing "No-Notice" storage withdrawals would automatically  
8 occur if the storage service is not fully utilized. If demand was still in excess of these  
9 resources, then any remaining interstate pipeline capacity along with swing gas supplies  
10 would be nominated and scheduled. At this point, all available interstate pipeline  
11 resources and on-system storage resources would be maximized. Curtailment of  
12 interruptible services would then be declared on the distribution system. In addition,  
13 transportation customers would not be allowed to withdraw from their imbalance banks  
14 on the distribution systems. The final resource to be utilized would be the propane-air  
15 plant.

16 **Q. Was it necessary to curtail interruptible customers or utilize the propane plant**  
17 **during 2000?**

18 A. No.

19 **Q. What was the Company's peak usage day in 2000?**

20 A. The peak usage day occurred on December 19, 2000 when a throughput of 22,728  
21 MMBtu was experienced on the distribution system.

22 **Q. What sources of supply were used to meet the demand on this peak day?**

23 A. The following table sets forth the supply sources that were used on December 19, 2000:

Supply Source	MMBtu (delivered)
Baseload	2,364
Storage	5,833
Swing	14,531
Total	22,728
Pipeline Source	MMBtu (delivered)
MRT	14,295
IGT	8,433
Total	22,728

**Q. Does AmerenUE have procedures for monitoring the delivery of purchased gas?**

A. Yes, it does. The Company measures and records gas flow volumes from MRT and IGT at points of delivery in Alton with electronic flow computer data telemetered to the Ameren Gas Operations office in Springfield, Illinois. MRT and IGT measure their respective flows with orifice meters, which are integrated on-site with flow computers. AmerenUE compares its records to MRT and IGT measurements. The Company periodically requests and then witnesses calibration and inspection of measurement equipment by MRT and IGT personnel. Volumes of propane deliveries are verified by comparing bills of lading against propane tank measurement gauges.

**Q. Were the Company's gas purchases during the year consistent with its procurement policies?**

A. Yes. AmerenUE utilized the most economical mix of gas sources available under the given conditions.

**Q. Do you believe AmerenUE's procurement of natural gas was prudent during 2000?**

A. Yes, I do.

**Q. Does this complete your testimony?**

A. Yes, it does.